



INTERNAL CONTROLS



Session Objectives

1. Understand internal controls and importance of written policies and procedures
2. Understand key elements of selected policies and procedures and need for compliance
3. Understand interrelationship between program and fiscal matters, and communications needs
4. Discuss real life scenarios to increase collaboration between program and fiscal staff

What are Internal Controls?

- ❑ Organizational policies, procedures, processes, and systems
- ❑ Clear identification and appropriate separation of authorities, responsibilities, duties
- ❑ A system of checks and balances

Internal Control Objectives

- ❑ Completeness of information and documentation
- ❑ Accuracy in accounting and information
- ❑ Proper authorization of transactions
- ❑ Adequacy of audit trail
- ❑ Segregation of duties
- ❑ Physical safeguard of assets
- ❑ Adequacy of records

Why have Internal Controls ?

- ❑ Improve accountability to customers (State, Commissions, Trustees, CNCS, etc.)
- ❑ Help organization achieve performance and budget targets
- ❑ Improve reliability of financial reporting
- ❑ Establish clear processes and procedures for completion of tasks
- ❑ Improve compliance with laws and regulations
- ❑ Prevent loss of resources and public assets
- ❑ Prevent loss of public trust

Types of Internal Controls

- ❑ **Operating** controls
 - ❑ Provide management with the assurance regarding efficiency and effectiveness of procedures
 - ❑ Encompass charts of account and procedural manuals for functional activities
- ❑ **Accounting** controls
 - ❑ Ensure reliability of recorded financial data
 - ❑ Appropriate level of review and authorization
- ❑ **Compliance** controls
 - ❑ Ensure that restricted funds are utilized for intended purposes

High Risk Areas

- ❑ Payroll Processing Including Time and Attendance Reports
- ❑ Cash Collection and Disbursement Transactions
- ❑ Fixed Assets Acquisition/ Disposition/ Physical Control
- ❑ Matching Requirements
- ❑ Sub-grants
- ❑ Multi-site programs/projects
- ❑ Member/staff eligibility

Potential Impacts of Inadequate Internal Controls

- ❑ Audit findings – questioned costs, material weakness, non-compliance with requirements
- ❑ Federal funds may be managed inappropriately
- ❑ Inconsistencies in practices, processes, reviews, approvals, documentation
- ❑ Inefficient use of time and resources
- ❑ Funding sources may be jeopardized
- ❑ Repayment of disallowed or unallowable costs

Audit Findings of Non-Compliance due to Inadequate Internal Controls

General:

- ◆ Late submission of financial reports
- ◆ Missing or questionable source documents
- ◆ Timesheets/evaluations not signed or dated
- ◆ Lack of internal justifications, reviews and approvals

AmeriCorps:

- ◆ AmeriCorps Member eligibility – documents, records, files
- ◆ AmeriCorps Member changes not timely submitted
- ◆ Prohibited activities
- ◆ Timesheet hours don't support earning education award
- ◆ Unacceptable justification for timesheet changes

The following address
Key Elements
of Internal Control:

1. Written Policies & Procedures

- ❑ Should be established, followed, monitored, updated and reviewed
- ❑ Are the standards for the organization's operations
- ❑ Provide clear and consistent communication of expectations
- ❑ Policies set expectations: "what is to be done"
- ❑ Procedures or processes describe: "how, who, and when it is to be done"
- ❑ Most effective ones explain rationale and include examples of principal transactions and completed forms

1. Written Policies & Procedures cont'd

- ❑ Help in maintaining information crucial to operations that would otherwise remain in employees "heads"
- ❑ Useful to orient new employees and substitutes if the appropriate personnel are absent

Examples of Policies & Procedures

- ◆ Authorization of transactions
- ◆ Payroll procedures
- ◆ Cash receipts procedures
- ◆ Procurement policies
- ◆ Travel regulations
- ◆ Financial reporting
- ◆ Budgeting
- ◆ Record retention
- ◆ Conflict of interest
- ◆ Timekeeping

Specific Policies Governing Federal Funds:

- ◆ Fiscal Reports (CMS) completion
- ◆ Advance or Drawdown of Federal funds from NY
- ◆ Matching requirements
- ◆ Member eligibility & requirements

See Handout 1

2. Review process for financial reports and budgets

- ❑ Assure adequacy of information
- ❑ Accuracy of data in reports
- ❑ Completeness
- ❑ Overall reasonableness
- ❑ Capture review & sign-offs by appropriate staff & management

3. Payroll

- ❑ System to track employees activities
 - ◆ Time and attendance records
 - ◆ Activity logs
- ❑ Pay checks should be
 - ◆ Supported by timesheets
 - ◆ Approved by supervisors

3. Payroll –continued

- ❑ Reconciliation of the payroll records with accounting system and filed returns (ensures correct amounts are recorded in General Ledger)
- ❑ Periodic review of employee records (ensures that personnel files updated and contain information that reflect the amount paid to employees)
- ❑ Timely filing of all required Federal and State payroll related tax returns

4. Cash Collection and Disbursement

- ❑ Adequate cash management procedures
 - ◆ Monthly cash flow forecast to manage timeliness of payments and availability of cash to make payments
 - ◆ Monthly bank reconciliations
- ❑ Controls over receipts
 - ◆ Pre-numbered receipt slips for cash collected
 - ◆ Use of at least two individuals for segregation of duties

4. Cash Collection and Disbursement - continued

- ❑ Controls over receipts
 - ◆ Person opening mail should be different from person making deposits
 - ◆ Deposit only to a bank account of the organization (no personal accounts)
 - ◆ All expenses should be paid by check and only if supporting documentation and proper approval are present (avoid if possible or severely limit a petty cash fund)

5. Safeguarding Fixed Assets

- ❑ Ensure that all newly acquired assets are tagged
- ❑ Policy to review and update equipment inventory annually
- ❑ Reconcile equipment inventory with accounting records
- ❑ Ensure that equipment purchased is capitalized according to Organizational policies

6. Matching Requirements

- ❑ Institute a policy requiring that match will be periodically calculated & reviewed - minimum quarterly
- ❑ Ensure staff are familiar with various grant matching requirements
- ❑ Ensure all matching funds are properly documented and entered into the General Ledger

7. Sub-grantees or Multi-site Program

- ❑ **NOTE:** Grantees are responsible for all funds that are passed on to or awarded to sub grantees or activities conducted at sites
- ❑ Responsibilities include ensuring that:
 - ❑ All sub-grantees/sites are aware of grant provisions and requirements
 - ❑ Expenditures are properly documented
 - ❑ Financial reports correlate to source documentation (including match from sites)

8. Member/Staff Eligibility

- ❑ Grantee Staff understand all eligibility requirements:
 - ◆ Age & other requirements, i.e. high school/GED; tutoring
 - ◆ Citizenship
 - ◆ National Sex Offender Registry & other Criminal History Checks
- ❑ Responsibilities include ensuring that:
 - ◆ Policies and Procedures exist in writing
 - ◆ Eligibility is properly documented as to when conducted & considered

9. Segregation of Duties

See Handout 2

- ❑ An essential element of Internal Controls is to :
 - ◆ Provide checks and balances
 - ◆ Ensure integrity of financial information
 - ◆ Help prevent loss and theft
- ❑ Assigning different financial functions to different staff – a key control mechanism to prevent fraud and theft

Separation of Financial Duties Worksheet

Instructions: In the top row of each column, enter the names and titles of the individuals who have responsibility for financial duties. In the following rows, place a checkmark below the name of individual completing each task.

Task	Position or Individual Performing the Task					
Name of Individuals → → → → →						
Cash Management						
• Receives Cash (e.g., opens mail)						
• Prepares & Posts Receipts						
• Prepares Deposits Slips						
• Banks the Deposits						
• Reconciles Bank Statements						
• Custodian of Petty Cash						
• Replenishes Petty Cash						
• Audits Petty Cash						
• Maintains General Ledger						
Disbursements and Purchase Orders						
• Approves Purchase Orders						
• Verifies Receipts of Goods/Services						
• Prepares Requests for Funds						
• Authorizes Disbursements						
• Prepares Checks						
• Signs Checks (co-signature required for amount >\$_____)						
• Signs Checks – Machine						
• Custodian/Check Signing Device						
• Custodian of Blank Checks						
• Compares Check with Voucher						
• Mails or Distributes Checks						

Internal Controls & Compliance as a Team Effort



Program and Fiscal Compliance as a Team Effort

- ❑ Helps build a more efficient, effective, and successful program
- ❑ Enhances cooperation and coordination
- ❑ Promotes on-going communication and collaboration
- ❑ **Program** and **Fiscal** staff both
 - ◆ gain a deeper understanding of the program goals
 - ◆ learn to value each other and their roles
 - ◆ support and cultivate a common purpose with mutual goals and mutual accountability

Why Communicate?

- ❑ **Program** staff make decisions that have fiscal implications
 - ◆ Developing budgets
 - ◆ Member issues: stipends, living allowances, recruitment, retention, slot conversions, reporting, and timesheets
 - ◆ Incurring costs
- ❑ **Fiscal** staff need to understand the program so they know when standard accounting and personnel practices do and do not apply and when special grant requirements take precedence

Examples of Collaboration Areas

- ❑ Budget Development and Execution
- ❑ Member Matters:
 - ◆ Member Eligibility
 - ◆ Member Recruitment and Retention
 - ◆ Member Tracking Systems
 - ◆ Member Timesheets
 - ◆ Member Stipends or Living Allowances
 - ◆ Member Slot Conversion & Refills
- ❑ Host Tracking Systems
- ❑ Program Income
- ❑ Financial Reporting

The following slides provide details of these collaboration examples

Budget Development and Execution

Both Program & Fiscal Staff should

- ❑ Assist in developing the program budget by line item
- ❑ Develop the system to track budget vs. actual expenses
 - ◆ Review the budget versus actual expenses quarterly, at a minimum, but more frequently may be more effective
- ❑ Determine what line items can be reallocated based on periodic reviews
- ❑ Know if MT Commission approval is necessary for budget changes
- ❑ For awards in excess of \$100,000 cumulative budget changes of 10% or more must be approved by MT Commission staff

Member Eligibility

- ❑ This is the single most costly finding in OIG audits
- ❑ Eligibility documentation is critical and usually collected by program staff
- ❑ An appropriate internal control might have fiscal or other staff review files for completeness and accuracy and have certify information in payroll files prior to issuing first living allowance payment

Member Recruitment & Retention

Both Program & Fiscal Staff should know

- ☐ When members have started service
- ☐ The level of recruitment
- ☐ The level of retention
- ☐ Know when slot conversions are warranted and have been made (AmeriCorps)
- ☐ Recruitment and retention will impact program expenses and cash flow

Member Tracking Systems

Both Program & Fiscal Staff should

- ❑ Assist in developing a system to track members'
 - ❑ W-4 received at the beginning of service [Withholding Allowance Certificate]
 - ❑ W-2 provided at close of tax year [Wage & Tax Statement]
 - ❑ Stipends and Living allowances payments
 - ❑ Personal Income Taxes
 - ❑ Worker's Compensation insurance or Occupational, Accidental, and Death and Dismemberment coverage
 - ❑ Health insurance for full-time members
 - ❑ No Unemployment Insurance taxes in MT
 - ❑ Physicals, if applicable

Member Tracking Systems (cont'd)

Both Program & Fiscal Staff should:

- ❑ Ensure living allowances are not paid on an hourly basis
- ❑ Ensure members are not classified as an employee or paid a wage
- ❑ Ensure member costs are separately identified from organizational staff salaries & benefits
- ❑ Ensure member stipends and living allowances cease when term of service concludes or member is released from service
- ❑ Ensure liability insurance coverage is secured for member in on- and off-site projects
- ❑ Ensure member files and records are safe and secure

AmeriCorps Slot Conversions & Refills

- ❑ Review slots where members have exited without award and determine if
 - ❑ the slot can be refilled, or
 - ❑ if funds will be unexpended to be reallocated
 - ❑ Obtain approvals for reallocation, as needed
- ❑ Additional resources may need to be raised if you refill a slot
- ❑ Part-time conversion to full-time
 - ❑ Account for additional health insurance

Member Living Allowance

- ❑ Program and payroll staff need to develop a communication system to ensure that only current active Members receive living allowance
- ❑ Establish a written policy & internal control with sign-off certification by Program on members being currently active and serving before payroll issuance

Member Living Allowance/Stipend

Program and fiscal/payroll staff need to discuss & understand issues with living allowance/stipend

- ❑ Example = exemptions from worker's compensation insurance
- ❑ Example = living allowance does not vary based on number of hours (AmeriCorps)
- ❑ Example = payroll/paychecks for members suspended; having left program early; or no service hours during pay period (without established justification) should not be issued.

Collaboration Tips

- ❑ Schedule periodic meetings of **Program** and **Fiscal** staff
 - ◆ Monthly or quarterly
 - ◆ Set agenda for each meeting
- ❑ Establish joint sign-off on reports
- ❑ Review process & revise contracts, forms, and accounts
 - ◆ Beginning of each program year
 - ◆ Periodically, every 3 to 6 months after beginning of year

Host Site Tracking Systems

Both Program & Fiscal Staff should:

- ❑ Track overall obligations from host sites Track expenses by line item
- ❑ Track budget changes
- ❑ Track host site payments for Member sponsorship
- ❑ Track other match from host sites
 - ◆ Space, supplies, travel

Taking it Home!



- ❑ Review current internal controls and policies and procedures to be sure they are adequate
- ❑ Develop or revise internal controls as needed to strengthen or improve
- ❑ Ensure internal controls are being followed and implemented
- ❑ Review/Develop ways Program & Fiscal Staff communicate and collaborate on appropriate matters.

